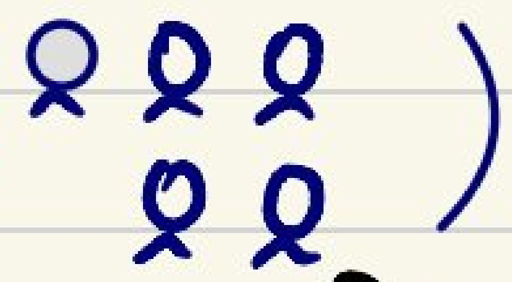
BONUS ISSUE AND RIGHT ISSUE

CCW → Additional Shares - FREE!! in proportion to their existing shareholding.



Existing Shareholders

For ex → 1:5

↳ 5 shares pe 1 free.

Journal - Share Cap ↑ → To eq. sh. cap ↑

→ Reserves ↓ → Reserves A/c Dr.

Bal. sheet

Bonus 2000 ↑ ↓

Eq. sh cap -	10,000	Cash	10,000
Reserves & Surplus	5000	Debtors	5000
Other Liab	15000	Other Assets	15000
	30,000		30000

→ Bonus Issue is known as 'Capitalisation of Profits'

Bonus issue can be in 2 Ways

Reserves	Issue of fully paid Bonus shares	Conversion of partly paid into fully paid.
1. Cap. Redemption Reserves	✓	✗
2. Security Prem. Res.		
- Listed co.- Only cash	✓	✗
Unlisted co.- Full amt	✓	✗
3. Free Reserves	✓	✓

Imp points:

1. Revaluation Res. cannot be used for Bonus Issue.
2. Free Reserve - Reserves which are available for distribution of Dividend
   - General Reserve
   - Surplus → cr. bal. of P&L A/c.

fully paid - ₹10

3 4 3 ✓ ✓ ✓ fully paid ✓

5 sh.

+1 share

10 ✓

3 4 3 ✓ final call

✓ ✓ Called up ✗

partly paid → fully paid

→ Security Prem Reserve:

Ex. TC Ltd. issued shares of ₹10 each at ₹2 prem.

Bank Dr 12
To eq. sh cap 10
To Sec. prem A/c 2
↳ Received in Cash

→ Can be used by Listed co. to issue fully paid Bonus shares.

Ex-2 Purchased Mach. of ₹100000 & issued 8000 eq. sh. of ₹10 each. at 25% premium. (2.5)

→ Mach. Dr. 100,000
To eq. sh. cap 80,000
(8000 x 2.5) To Sec prem A/c 20,000
↳ Not received in cash
– Cannot be used by Listed co.

If Q is Silent - Assume SPR is received in Cash

→ If Subscribed & paid up cap exceeds the Authorised sh. cap as a result of Bonus issued
↳ A resolution shall be passed by the company in General Meeting for increasing Auth sh cap

* Sec 63[2] - following conditions should be fulfilled before issue of fully paid Bonus shares.

a] It is authorised by Articles

b] It has been authorised in the GM of the company.

c] No default in payment of interest or principal in respect of debt securities.

d] No default in respect of payment of statutory dues of employees. Contribution to PF.

e] The partly paid up shares are made up fully paid up.

→ Bonus shares shall not be issued in lieu of dividend.

→ Effect on EPS = $\frac{\text{Earning available for Eq. SH}}{\text{No. of eq. shares}}$

Earning per share ↳ ↑ after Bonus

↓

EPS will decline.

JOURNAL ENTRIES

Issue of fully paid Bonus shares

1. CRR A/c Dr.
   Sec. Prem A/c Dr.
   Gen. Res A/c Dr.
   P&L A/c Dr.
   To Bonus to shareholder A/c

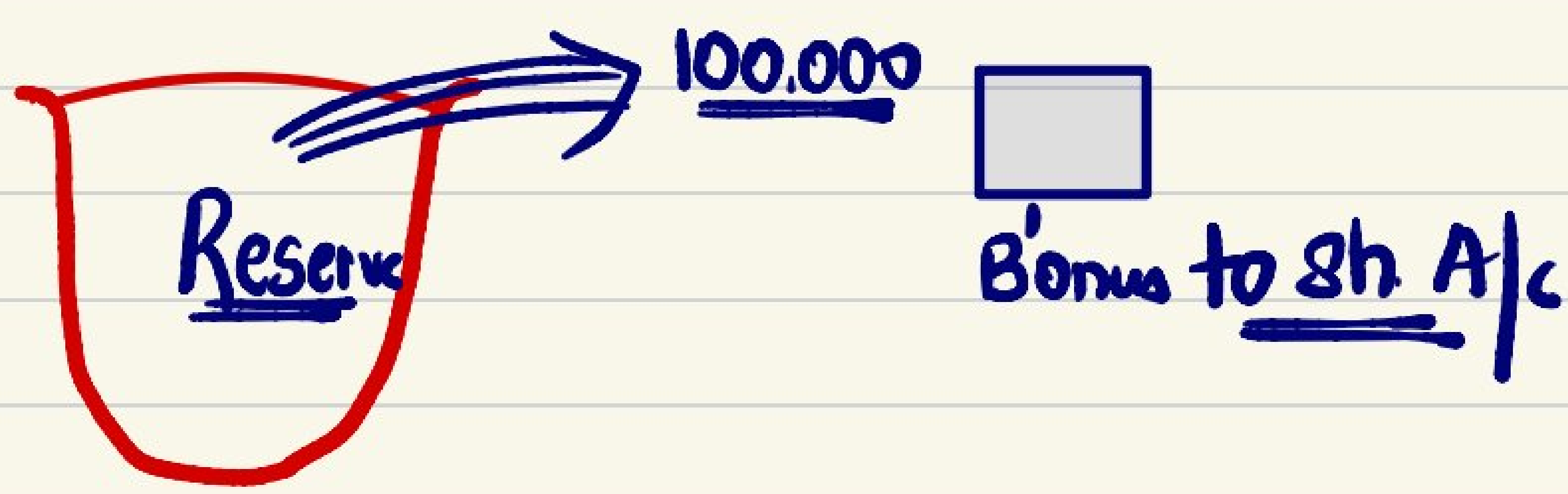
2. Bonus to shareh. A/c Dr.
   To Eq. sh cap A/c

Converting partly paid up shares to fully paid up.

1. Gen Res Dr.
   P&L A/c Dr
   To Bonus to sh. A/c

2. Eq. sh. final call Dr
   To Eq. sh cap A/c

3. Bonus to sh A/c Dr.
   To Eq. sh. final call A/c



40,000 × $\frac{1}{4}$
10,000

SPR - Cash ✓

ILLUSTRATION 1

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	₹
40,000 Equity shares of ₹ 10 each ₹100,000 fully paid	*4,00,000*
Capital Redemption Reserve	*55,000*
Securities Premium (collected in cash)	*30,000*
General Reserve	*1,05,000*
Surplus i.e. credit balance of Profit and Loss Account	*50,000*

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

WN 1 No. of Bonus Shares = $\frac{40,000}{4}$ = 10,000

Value of Bonus Sh = 10,000 × 10 - FV
= ₹100,000 ✓

Journal

1. Cap Red. Res. A/c Dr. 55000
Sec. Prem A/c Dr. 30,000
Gen. Res. Dr 15000
To Bonus to Sharehol. A/c 100,000

2. Bonus to Shareholder A/c Dr. 100,000
To Eq. Sh. cap A/c 100,000

ER

ILLUSTRATION 2 $50.000 \times 2.5 = 125000$

Pass Journal Entries in the following circumstances:

(i) *A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.*

(ii) *A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.*

$\frac{500.000}{10}$ = 50.000

Journal

(i)

1. General Reserve A/c Dr 125000
   To Bonus to Shareholder A/c 125000

2. Eq. Share final call Dr 125000
   To Eq. Sh cap A/c 125000

3. Bonus to Sharehold. A/c Dr 125000
   To Eq. Sh. final call A/c 125000

(ii)

1. Gen. Res A/c Dr. 500.000
   To Bonus to Sh. A/c 500.000

2. Bonus to Sharehol. A/c Dr 500.000
   To Eq. Sh Cap 500.000

4 - 1
90,000 · $\frac{90,000}{4}$

ILLUSTRATION 3

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

	₹
Authorised capital :	
10,000 12% Preference shares of ₹ 10 each	*1,00,000*
1,00,000 Equity shares of ₹ 10 each	*10,00,000*
+112500	*11,00,000*
Issued and Subscribed capital:	
112500 *8,000 12% Preference shares of ₹ 10 each fully paid*	*80,000*
+22500 *90,000 Equity shares of ₹ 10 each, ₹ 8 paid up* $\frac{90,000}{4} = 22500 \times 10 = 225000$	*7,20,000*
Reserves and Surplus :	
General reserve	*1,60,000*
Revaluation reserve	*35,000*
Securities premium (collected in cash)	*20,000*
Profit and Loss Account	*2,05,000*
Secured Loan:	
12% Debentures @ ₹ 100 each	*5,00,000*

On 1st April, 2022 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

Journal

Apr 1	Eq. Sh. final Call Dr	180,000	
	To Eq. Sh cap		180,000

Apr 20 Bank A/c Dr 180.000
To Eq. Sh. final call 180.000

Sec. Prem Dr 20,000
Gen. Res Dr. 160,000
P&L A/c Dr 45000
To Bonus to Sh. A/c 225000

→ Bonus to Sh. A/c Dr 225000
To eq. sh. cap 225000

Extract of Balance Sheet
as on ...

Particulars	Note No	C.Y	P.Y.
I Eq. & Liab			
1. Shareholder funds			
a. Share Cap	1	1205000	
b. Res & Surplus	2	195000	
2. Non-Current Liab			
a. Long term borr.	3	500.000	

Notes to Accounts

1. Share Cap.	
Auth. Sh. cap.	
10,000 12% pref. sh. Cap of ₹10 each. ₹100,000	
1,12,500 eq. sh. of ₹10 each ₹11,25000	12,25,000
Issued, Sub & paid up cap	
8000, 12% pref sh. of ₹10 each. 80,000	
112500 eq. sh. of ₹10 each 1125000	1205000
[Out of the above, 22500 eq. sh. were issued as Bonus shares]	
2. Reserves & Surplus	
Gen. Res 160,000	
(-) utilised for Bonus issue (160,000)	—
Rev Res.	35000
Sec. Prem. Res 20,000	
(-) utilised for Bonus issue (20000)	—
P&L A/c 205000	
(-) utilised for Bonus (45000)	160,000
3. Long term borr.	
12% Deb @ ₹100 each.	500,000

Right Issue

TC → Adnani Family — 6000 shares — 60%

Public — 4000 shares

↓

Wants to Issue 5000 shares → if directly offered to the Public

⇒ Adnani Shareholding = $\frac{6000}{15000}$ = 40%

Dillution of Shareholding ← 40%

→ Co. Act 2013 allows existing Shareholders to preserve their Position by offering those newly issued share to them first.

→ Right Issue : Issue of Right to the company's existing Shareholder that entitles them buy additional share directly from the company.

Right (अधिकार)

- To Subscribe
- To reject
- To Renounce — Sell the Right in the Market

→ Shares are offered at Discounted price in comparison to Market price.

1:5 → Jiske pas 5 shares h, 1 Right share Milega

Ex. Today

MP = ₹50 → Cum Right Market price → Right issue से पहले

Right issue Price · ₹20

MP after Right issue → Ex Right Market price [Weighted Avg. price]

$$MP = \frac{\text{Total Market capitalisation}}{\text{No. of shares}} = \frac{5000}{100} = 50$$

$$\Rightarrow \frac{100 \times 50 + 20 \times 20}{100 + 20}$$

$\Rightarrow$ ₹45 per share

⇒ Cum-Right value of shares = No. of existing shares × MP per sh
= 100 × 50
= ₹5000

→ Ex-Right value of share [per share] = $\left[\dfrac{\text{Cum-Right value of shares} + \left(\text{Right shares} \times \text{Right issue price}\right)}{\text{No. of ex shares} + \text{No. of right sh.}}\right]$

1:5

Ex-Right

Weight

$$\frac{100 \times 50 + 20 \times 20}{120}$$

$$\frac{5400}{120} = 45$$

हक → 120 @ 45 → Cum Right ₹ 50

Value of Right = ₹5 per sh

= Cum Right price - Ex Righ

50 - 45

5

Value of Right = Cum-Right value per share − Ex right value per sh.

= ₹50 − ₹45

= ₹5 per share

Existing SH

= 100 × 45 ⇒ 4500

\+ Renounce 500 ✓

(100 × 5)

5000

New SH

Paid to co = 20 × 20 = 400

\+ paid for Right = 500

900

per share = $\frac{900}{20}$ = ₹45

Ex-Right

ILLUSTRATION 5

4 - 1

125

A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹ 150. Calculate the value of a right. What should be the ex-right market price of a share?

Ex-Right Market price of a share

$$\Rightarrow \left[\frac{150 \times 4 + 125 \times 1}{5} \right]$$

= ₹145 per share

→ Value of Right = ₹150 − ₹145

= ₹5 per share

PQ-4

2 1

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

Ex-right Market price = $\frac{\boxed{240 \times 2} + 120 \times 1}{3}$

= ₹200

Value of Right = $\boxed{240} - \boxed{200}$

= ₹40 per share

PQ-5

A Ltd company having share capital of 25,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

No. of Right shares = $\frac{25000}{4}$ = 6250 shares

↳ 10

Journal

1. Bank A/c Dr [6250x10] 62500
   To Eq. sh cap A/c 62500

Q.6 ✓

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹ 10 each fully paid	5,00,000
4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up → 500000 eq. sh.	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
~~Revaluation Reserve~~	1,00,000
Profit and Loss Account	16,00,000

5 - 2

1 - $\frac{2}{5}$ = 200.000

5L - $\frac{2}{5} \times 500000$

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on 1st May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.

2L × 12 - 24L

Show necessary journal entries in the books of the company for bonus issue and rights issue.

No. of Right Share -

JOURNAL

Date	Particulars	Dr	Cr
2022 April	Eq. Sh. final call A/c Dr	800.000	
	To Eq. sh cap A/c		800.000
Apr 25	Bank A/c Dr	800.000	
	To Eq. sh final call		800.000
May 1	Cap Red. Res. A/c Dr	240.000	
	Sec. Prem Dr	275000	
	Gen. Res. Dr	160.000	
	P&L A/c Dr	325000	
	To Bonus to Sh A/c		10.00.000
May 1	Bonus to Sh. A/c Dr	10.00.000	
	To Eq. sh cap		10.00.000
June 20	Bank A/c Dr [200.000 x 12] (10)	2400.000	
	[200.000 x 10) To eq. sh cap		200.0000
	[200.000 x 2] To Sec. prem A/c		400.000

Comment → 100% cov

Chapter over :)